

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Durand</b>	County <b>Shiawassee</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>10/24/05</b>	Date Accountant Report Submitted to State: <b>12/28/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Stewart, Beauvais &amp; Whipple</b>			
Street Address <b>1979 Holland Ave.</b>	City <b>Port Huron</b>	State <b>MI</b>	ZIP <b>48060</b>
Accountant Signature <i>Stewart, Beauvais &amp; Whipple</i>		Date <i>12-28-05</i>	

**CITY OF DURAND, MICHIGAN**

**ANNUAL FINANCIAL STATEMENTS**  
**with Supplementary Information**

**FOR THE YEAR ENDED**  
**JUNE 30, 2005**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



# CITY OF DURAND, MICHIGAN

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# CITY OF DURAND, MICHIGAN

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Durand, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the remaining fund information of the City of Durand, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Durand's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2005, on our consideration of the City of Durand's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8, and budgetary comparisons on pages 41 through 44 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Durand's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

October 24, 2005

### OVERVIEW OF THE FINANCIAL STATEMENTS

The City of Durand's 2005 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and component unit information. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.

#### *Government-wide Financial Statements*

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the City's net assets and how they have changed. Net assets, defined as the difference between the City's assets and liabilities, are one way to measure the City's financial health or position.

The government-wide financial statements of the City are divided into two categories:

**Governmental activities** – most of the City's basic services are included here, such as the police, fire, public works, parks and recreation, general administration and debt retirement. Property taxes, state-shared revenues, charges for services, and most of the funding.

**Business-type activities** – the City charges fees to customers to help it cover the costs of certain services it provides. The City's water, sewer and refuse operations are treated as business-type activities.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the City's most significant funds; not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

**Governmental funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City currently has 12 governmental funds.

**Proprietary Funds** – Proprietary funds use the accrual basis of accounting, which is the same basis used by the private businesses. The City maintains two different types of proprietary funds.

**Enterprise Funds** – are used to report services for which the City charges customers a fee for those services. The City has three enterprise funds, the Water, Sewer and Refuse Funds.

**Internal Service Funds** – reports activities that provide services and supplies to other City programs. The City utilizes a Motor Pool internal service fund.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's operations. The City has two fiduciary funds, the Employee Benefits Trust Fund and the Tax Agency Fund.

## FINANCIAL OVERVIEW (Government-wide financial analysis)

The City has combined total net assets of 9.7 million. This is an increase of \$65,774 over 2004. Government-type activities comprise \$2.9 million, and business-type activities make up \$6.7 million of the total net assets. In a condensed format, the table below shows net asset as of the June 30, 2005 and 2004.

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
<b>In Thousands</b>				
<b>Assets</b>				
Current assets	\$ 1,287	\$ 1,335	\$ 386	\$ 244
Restricted assets	28	43	283	163
Capital assets	<u>5,239</u>	<u>4,288</u>	<u>7,754</u>	<u>7,735</u>
Total assets	<u>\$ 6,554</u>	<u>\$ 5,666</u>	<u>\$ 8,423</u>	<u>\$ 8,142</u>
<b>Liabilities</b>				
Current liabilities	219	72	77	48
Long-term liabilities	<u>3,410</u>	<u>2,822</u>	<u>1,619</u>	<u>1,279</u>
Total liabilities	<u>\$ 3,629</u>	<u>\$ 2,894</u>	<u>\$ 1,696</u>	<u>\$ 1,327</u>
<b>Net Assets</b>				
Invested in capital assets –				
Net of related debt	1,832	1,469	6,386	6,386
Restricted	183	251	181	178
Unrestricted	<u>910</u>	<u>1,052</u>	<u>160</u>	<u>251</u>
Total net assets	<u>\$ 2,925</u>	<u>\$ 2,772</u>	<u>\$ 6,727</u>	<u>\$ 6,815</u>

The City's governmental activities experienced a net change in assets of \$154,080. The main reason for the increase is the significant purchase of capital assets during the year. The business-type activities experienced a decrease in net assets of \$(88,306), which is approximately 6% of annual expenses.



The following table shows the changes in net assets for 2005 and 2004:

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
<b>In Thousands</b>				
<b>Revenue</b>				
Program Revenue				
Charges for services	\$ 114	\$ 77	\$ 1,342	\$ 1,254
Operating grants and contributions	278	272	-	-
Capital grants and contributions	29	69	-	-
General Revenue				
Property taxes	1,312	1,246	-	-
State-shared revenue	558	535	-	-
Unrestricted investment earnings	27	19	5	3
Franchise fees	-	28	-	-
Total Revenue	<u>\$ 2,319</u>	<u>\$ 2,246</u>	<u>\$ 1,347</u>	<u>\$ 1,257</u>
<b>Program Expenses</b>				
General government	539	473	-	-
Public safety	736	728	-	-
Public works	598	581	-	-
Recreation and culture	147	119	-	-
Interest on long-term debt	145	130	-	-
Water	-	-	517	461
Sewer	-	-	725	675
Refuse	-	-	193	179
Total Program Expenses	<u>2,165</u>	<u>2,031</u>	<u>1,435</u>	<u>1,315</u>
<b>Changes in Net Assets</b>	<u>\$ 154</u>	<u>\$ 205</u>	<u>\$ ( 88)</u>	<u>\$ ( 58)</u>

### ***Governmental Activities***

Revenues for governmental activities totaled \$2.3 million in 2005. Of this amount \$1.3 million or 57% was received from taxes followed by state Shared Revenue of .6 million or 24%.

### ***Business-type Activities***

The City has three business-type activities, water, wastewater and refuse operations. The City operates its own water and sewage treatment facility and contracts for refuse collections. The water, wastewater and refuse services funds had a net increase (decrease) in net assets of \$(36,243), \$(43,753) and \$(8,310), respectively.

## **FINANCIAL ANALYSIS OF MAJOR FUNDS**

The general fund ended 2005 with a fund balance of \$603,748, of which \$142,981 was reserved for specific purposes, \$106,000 designated for retiree health insurance, with the remaining amount of \$360,767 unreserved and undesignated. This is a decrease of \$105,264 from the prior year. The original General Fund budget estimated expenses over revenues of \$66,900 and the amended budget, exclusive of the purchase of the real estate, a decrease of \$73,200 for the fiscal year end June 30, 2005. These shortfalls were to be covered by accumulated fund balances from prior years to avoid cutting services to the community.

The City's other major funds, the Major Street and Local Street Funds ended 2005 with a fund balance of \$15,294 and \$12,729 respectively. This is a decrease of \$146,073 for the Major Street Fund and \$1,709 for the Local Street Fund. The majority of the decrease in the Major Street Fund was the resurfacing of Oak/Mackinac Street. The resurfacing of Oak Street, including water main work, was \$235,650. The City received a federal grant to assist in paying for the paving of Oak Street. The total grant was in the amount of \$134,632.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City administration and City Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. During the significant budget amendments were made in the following areas:

General Fund – the only significant budget amendment was in the general administration area for the purchase of real estate for \$490,000. The City purchased 195 acres and is currently in the process of planning how the property will be used.

Major Street Fund – the budget for maintenance expenses were decreased from \$349,400 to 231,100 as a result of payment process with MDOT was different than anticipated.

Local Street Fund – the budget for maintenance expenses were increased for \$61,900 to \$150,500 as a result of Columbia in conjunction with relocation of a sewer main.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The City had \$13.0 million dollars invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2005. The investment in capital assets includes, land, building and building improvements, machinery and equipment, vehicles, and water and sewer systems. Infrastructure (e.g. roads, drains, etc.) purchased on or after July 1, 2003 is also included. During the year the City added approximately \$1,472,000 of capital assets before taking into account depreciation. Depreciation for the year was \$491,118. The following table shows the capital assets at June 30, 2005 and 2004:

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Land	\$ 1,495,195	\$ 1,003,610	\$ 151,400	\$ 151,400
Building and improvements	3,290,837	3,290,837	3,784,514	3,784,514
Machinery and equipment	856,792	854,875	93,641	81,917
Vehicles	1,156,183	905,462	-	-
Infrastructure	598,446	207,618	-	-
Water and sewer systems	-	-	8,842,258	8,550,935
Construction in progress	26,325	-	13,426	24,076
	<u>7,423,778</u>	<u>6,262,402</u>	<u>12,885,239</u>	<u>12,592,842</u>
Accumulated depreciation	( 2,184,668)	( 1,974,741)	( 5,131,283)	( 4,857,502)
	<u>\$ 5,239,110</u>	<u>\$ 4,287,661</u>	<u>\$ 7,753,956</u>	<u>\$ 7,735,340</u>

During the year, the City added \$1,165,501 of assets to the governmental activities, which included resurfacing of Oak/Mackinac Street, purchase of real estate, and the purchase of a new street sweeper. The business-type activities added \$306,451 mainly as improvements to the wastewater and water supply systems.

### Long-term Debt

At June 30, 2005, the City had \$5,068,939 in long-term debt compared to \$4,136,649 at June 30, 2004. During the year, the governmental activities issued a note for \$490,000 for the purchase of real estate, \$227,307 for the purchase of a street sweeper, and \$490,000 of Bonds for improvements to the water and sewer system. The following table shows the capital assets at June 30, 2005 and 2004:

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
General Obligation Bonds	\$ 2,665,000	\$ 2,765,000	\$ 400,000	\$ -
Revenue Bonds	-	-	1,210,000	1,275,000
Installment Loans	742,038	54,045	-	-
Compensated Absences	<u>2,939</u>	<u>2,731</u>	<u>9,164</u>	<u>4,410</u>
	<u>\$ 3,409,977</u>	<u>\$ 2,821,771</u>	<u>\$ 1,619,164</u>	<u>\$ 1,279,410</u>

In addition the City funds compensated absences earned in governmental funds in the Employee Benefit Fund, the long-term liability amounted to \$39,798.

## **ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES**

The economy in the state of Michigan continued to struggle throughout the fiscal year. This continues to have an impact on the City of Durand, mostly through the loss of a significant amount of state revenue sharing. The city received approximately \$120,000 less in revenue sharing than it did in 1999. While experiencing small growth in revenue, most expenditures continue to grow at the rate of inflation or higher. The City has responded to this problem by negotiating union contracts (and for non-union employees) that allow for cuts in healthcare costs. The City also has a reduction in discretionary costs, primarily capital outlay. For the foreseeable future, this trend (of less revenue) is expected to continue. Future budgets will be more difficult to balance and more reduction in costs will likely be necessary.

The City is working on several projects that may bring development that will eventually lead to an expansion of the City's tax base. In addition, during the Spring of 2006, the City will begin a construction project in part of the downtown area that will include a streetscape. This will be paid for by combining several federal and state grants. The project is estimated to cost approximately \$1,000,000. This project, once completed, will enhance the downtown area and will have a positive impact on the value of the residential and other commercial properties in the City. This would be the second phase of the redevelopment of the downtown area.

## **CONTACTING THE CITY'S MANAGEMENT**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, we invite you to contact the City of Durand administration at City Hall (989) 288-3113.

## **BASIC FINANCIAL STATEMENTS**

# CITY OF DURAND, MICHIGAN

## STATEMENT OF NET ASSETS JUNE 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	DDA
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 753,053	\$ 142,761	\$ 895,814	\$ 87,981
Investments	1,169	-	1,169	-
Receivables	380,390	288,988	669,378	-
Prepaid expenses	52,873	5,817	58,690	-
Internal balances	21,118	( 21,118)	-	-
Advance to (from) other funds	74,481	( 74,481)	-	-
Inventory	4,254	44,021	48,275	-
Restricted Assets -				
Cash and cash equivalents	28,085	149,720	177,805	-
Investments	-	133,257	133,257	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	1,521,520	164,826	1,686,346	-
Assets being depreciated	3,717,590	7,589,130	11,306,720	174,400
Total Assets	<u>6,554,533</u>	<u>8,422,921</u>	<u>14,977,454</u>	<u>262,381</u>
<b>LIABILITIES:</b>				
Payables and accrued liabilities	201,679	66,877	268,556	500
Accrued interest	17,013	-	17,013	888
Due to other governmental units	-	-	-	10,893
Deposits	-	10,015	10,015	-
Non-current liabilities				
Due within one year	176,900	115,000	291,900	20,000
Due in more than one year	3,233,077	1,504,164	4,737,241	75,000
Total Liabilities	<u>3,628,669</u>	<u>1,696,056</u>	<u>5,324,725</u>	<u>107,281</u>
<b>NET ASSETS:</b>				
Investment in capital assets, net of related liabilities	1,832,072	6,386,485	8,218,557	79,400
Restricted				
Acquisition/construction of capital assets	8,684	-	8,684	-
Debt service	98,663	165,967	264,630	-
Well head protection	-	15,000	15,000	-
Other	76,023	-	76,023	24,091
Unrestricted	910,422	159,413	1,069,835	51,609
Total Net Assets	<u>\$ 2,925,864</u>	<u>\$ 6,726,865</u>	<u>\$ 9,652,729</u>	<u>\$ 155,100</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
General Government	\$ 539,057	\$ 50,687	\$ -	\$ -
Public Safety	736,378	43,044	2,248	-
Public Works	597,995	-	275,899	25,069
Recreation and Culture	146,841	20,753	-	4,428
Interest on Long Term Debt	144,587	-	-	-
Total governmental activities	<u>2,164,858</u>	<u>114,484</u>	<u>278,147</u>	<u>29,497</u>
Business type activities:				
Water Supply System	516,922	480,093	-	-
Wastewater	724,714	677,209	-	-
Refuse Services	193,394	184,715	-	-
Total business type activities	<u>1,435,030</u>	<u>1,342,017</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>3,599,888</u>	<u>1,456,501</u>	<u>278,147</u>	<u>29,497</u>
<b>Component Unit</b>				
Downtown Development Authority	<u>27,531</u>	<u>-</u>	<u>697</u>	<u>-</u>
Total Component Units	<u>27,531</u>	<u>-</u>	<u>697</u>	<u>-</u>

General revenues:

Taxes

Property taxes levied for general purposes

Property taxes levied for streets

Property taxes levied for debt purposes

Grants and contribution not  
restricted to specific programs

Sales taxes

Franchise fees

Other

Unrestricted investment income

Loss on sale of fixed assets

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government			Component Unit DDA
Governmental Activities	Business Type Activities	Total	
\$( 488,370)	\$ -	\$( 488,370)	\$ -
( 691,086)	-	( 691,086)	-
( 297,027)	-	( 297,027)	-
( 121,660)	-	( 121,660)	-
( 144,587)	-	( 144,587)	-
<u>( 1,742,730)</u>	<u>-</u>	<u>( 1,742,730)</u>	<u>-</u>
-	( 36,829)	( 36,829)	-
-	( 47,505)	( 47,505)	-
<u>-</u>	<u>( 8,679)</u>	<u>( 8,679)</u>	<u>-</u>
<u>-</u>	<u>( 93,013)</u>	<u>( 93,013)</u>	<u>-</u>
<u>( 1,742,730)</u>	<u>( 93,013)</u>	<u>( 1,835,743)</u>	<u>-</u>
-	-	-	( 26,834)
<u>-</u>	<u>-</u>	<u>-</u>	<u>( 26,834)</u>
1,016,698	-	1,016,698	-
83,911	-	83,911	-
211,877	-	211,877	53,908
528,945	-	528,945	-
28,682	-	28,682	-
-	-	-	10,905
26,697	4,826	31,523	574
<u>-</u>	<u>( 119)</u>	<u>( 119)</u>	<u>-</u>
<u>1,896,810</u>	<u>4,707</u>	<u>1,901,517</u>	<u>65,387</u>
154,080	( 88,306)	65,774	38,553
<u>2,771,784</u>	<u>6,815,171</u>	<u>9,586,955</u>	<u>116,547</u>
<u>\$ 2,925,864</u>	<u>\$ 6,726,865</u>	<u>\$ 9,652,729</u>	<u>\$ 155,100</u>



# CITY OF DURAND, MICHIGAN

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2005

	General	Major Street	Local Street	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 215,795	\$ 790	\$ 120,074	\$ 171,352	\$ 508,011
Investments	1,169	-	-	-	1,169
Receivables -					
Interest and accounts	16,565	-	-	949	17,514
Special assessments	-	-	-	20,589	20,589
Prepayments and deposits	39,670	-	-	-	39,670
Due from other governmental units -					
Federal/State	179,203	49,593	10,971	100,059	339,826
Local	2,461	-	-	-	2,461
Due from other funds	105,558	-	11,860	-	117,418
Advance to other funds	74,481	-	-	-	74,481
Inventories	745	1,403	845	-	2,993
Restricted Assets -					
Cash and cash equivalents	28,085	-	-	-	28,085
	<u>28,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,085</u>
Total Assets	<u>\$ 663,732</u>	<u>\$ 51,786</u>	<u>\$ 143,750</u>	<u>\$ 292,949</u>	<u>\$ 1,152,217</u>
<b>Liabilities:</b>					
Accounts payable	\$ 36,590	\$ 15,125	\$ 130,216	\$ 4,259	\$ 186,190
Accrued liabilities	11,534	67	805	-	12,406
Due to other funds	11,860	-	-	100,052	111,912
Deferred revenue	-	21,300	-	17,401	38,701
	<u>-</u>	<u>21,300</u>	<u>-</u>	<u>17,401</u>	<u>38,701</u>
Total Liabilities	<u>59,984</u>	<u>36,492</u>	<u>131,021</u>	<u>121,712</u>	<u>349,209</u>
<b>Fund Balances:</b>					
Reserved -	142,981	1,403	845	107,347	252,576
Unreserved -					
Designated	100,000	-	-	-	100,000
Undesignated -					
General Fund	360,767	-	-	-	360,767
Special Revenue Funds	-	13,891	11,884	63,890	89,665
Total Equity	<u>603,748</u>	<u>15,294</u>	<u>12,729</u>	<u>171,237</u>	<u>803,008</u>
Total Liabilities and Fund Equity	<u>\$ 663,732</u>	<u>\$ 51,786</u>	<u>\$ 143,750</u>	<u>\$ 292,949</u>	<u>\$ 1,152,217</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS JUNE 30, 2005

Fund Balances - total governmental funds		\$	803,008
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			5,539,475
Accumulated depreciation		(	996,786)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			
Special Assessments			38,700
Internal Service Fund used by management to charge cost of the City's equipment revolving activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			
			701,810
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Bonds payable	(	3,143,330)	
Accrued interest	(	17,013)	( 3,160,343)
Net Assets of governmental activities		\$	<u>2,925,864</u>

The notes to the financial statements are an integral part of this statement.

# CITY OF DURAND, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	General	Major Street	Local Street	Other Governmental Fund	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 1,052,048	\$ -	\$ -	\$ 295,788	\$ 1,347,836
Licenses and permits	28,682	-	-	17,687	46,369
Intergovernmental -					
Federal/State	531,193	174,922	79,677	-	785,792
Charges for services	32,226	-	-	-	32,226
Fines and forfeits	18,598	-	-	-	18,598
Interest and rent	21,412	436	74	4,775	26,697
Special assessment	-	-	-	27,689	27,689
Other	4,428	-	-	10,623	15,051
Total Revenues	<u>1,688,587</u>	<u>175,358</u>	<u>79,751</u>	<u>356,562</u>	<u>2,300,258</u>
<b>Expenditures:</b>					
Current -					
General Government	1,007,897	-	-	-	1,007,897
Public Safety	711,202	-	-	20,732	731,934
Public Works	423,569	303,431	250,260	32,374	1,009,634
Recreation and Cultural	80,919	-	-	12,347	93,266
Capital Outlay	-	-	-	1,390	1,390
Debt Service					
Principal	11,670	-	-	100,000	111,670
Interest	10,586	-	-	127,517	138,103
Total Expenditures	<u>2,245,843</u>	<u>303,431</u>	<u>250,260</u>	<u>294,360</u>	<u>3,093,894</u>
Excess of revenues over (under) expenditures	<u>( 557,256)</u>	<u>( 128,073)</u>	<u>( 170,509)</u>	<u>62,202</u>	<u>( 793,636)</u>
<b>Other Financing Sources (Uses):</b>					
Bond/Loan Proceeds	490,000	-	-	-	490,000
Transfers from other funds	-	-	168,800	38,008	206,808
Transfers to other funds	( 38,008)	( 18,000)	-	( 150,800)	( 206,808)
Total Other Financing Sources (Uses)	<u>451,992</u>	<u>( 18,000)</u>	<u>168,800</u>	<u>( 112,792)</u>	<u>490,000</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>( 105,264)</u>	<u>( 146,073)</u>	<u>( 1,709)</u>	<u>( 50,590)</u>	<u>( 303,636)</u>
Fund Balances at beginning of year	<u>709,012</u>	<u>161,367</u>	<u>14,438</u>	<u>221,827</u>	<u>1,106,644</u>
Fund Balances at end of year	<u>\$ 603,748</u>	<u>\$ 15,294</u>	<u>\$ 12,729</u>	<u>\$ 171,237</u>	<u>\$ 803,008</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES JUNE 30, 2005

Net change in fund balances - total governmental funds \$( 303,636)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	914,780
Depreciation expense	( 99,741)

Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Special assessments	( 2,620)
Grants	21,300

Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.

Principal payments on long term liabilities	111,670
Bond/Note proceeds	( 490,000)
Increase in accrued interest	( 6,484)
	( 384,814)

Internal service funds used by management to charge costs of the City's equipment revolving activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.

8,811
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Change in net assets of governmental activities	\$ 154,080
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The notes to the financial statements are an integral part of this statement.

**CITY OF DURAND, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2005**

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Fund
<b>ASSETS:</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 117,731	\$ -	\$ 25,030	\$ 142,761	\$ 245,042
Accounts and interest receivable	104,911	177,580	6,497	288,988	-
Due from other funds	-	-	-	-	15,612
Inventories	34,881	9,140	-	44,021	1,261
Prepaid expenses	5,555	262	-	5,817	13,203
Total Current Assets	<u>263,078</u>	<u>186,982</u>	<u>31,527</u>	<u>481,587</u>	<u>275,118</u>
<b>Restricted Assets:</b>					
Cash and cash equivalents	-	149,720	-	149,720	-
Investments	-	133,257	-	133,257	-
Total Restricted Assets	<u>-</u>	<u>282,977</u>	<u>-</u>	<u>282,977</u>	<u>-</u>
<b>Property, Plant and Equipment:</b>					
Property, plant and equipment	5,049,341	7,835,898	-	12,885,239	1,884,304
Less - accumulated depreciation	( 1,668,200)	( 3,463,083)	-	( 5,131,283)	( 1,187,882)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>3,381,141</u>	<u>4,372,815</u>	<u>-</u>	<u>7,753,956</u>	<u>696,422</u>
Total Assets	<u>3,644,219</u>	<u>4,842,774</u>	<u>31,527</u>	<u>8,518,520</u>	<u>971,540</u>
<b>LIABILITIES:</b>					
<b>Current Liabilities:</b>					
Accounts payable	3,970	45,873	12,515	62,358	2,275
Accrued expenses	1,859	2,660	-	4,519	808
Due to other funds	2,753	18,365	-	21,118	-
Bonds/Notes payable (current portion)	25,000	90,000	-	115,000	37,459
Customer deposits	10,015	-	-	10,015	-
Total Current Liabilities	<u>43,597</u>	<u>156,898</u>	<u>12,515</u>	<u>213,010</u>	<u>40,542</u>
<b>Long-Term Liabilities (net of current portions):</b>					
Advance from other funds	-	74,481	-	74,481	-
Accrued vacation and sick	4,179	4,985	-	9,164	2,939
Notes payable (net of current portion)	175,000	1,320,000	-	1,495,000	226,249
Total Long-Term Liabilities	<u>179,179</u>	<u>1,399,466</u>	<u>-</u>	<u>1,578,645</u>	<u>229,188</u>
Total Liabilities	<u>222,776</u>	<u>1,556,364</u>	<u>12,515</u>	<u>1,791,655</u>	<u>269,730</u>
<b>NET ASSETS:</b>					
Investment in capital assets, net of related liabilities	3,381,141	3,005,344	-	6,386,485	432,714
Restricted -					
Debt service	-	165,967	-	165,967	-
Well head protection	15,000	-	-	15,000	-
Unrestricted					
Undesignated	25,302	115,099	19,012	159,413	269,096
Total Net Assets	<u>\$ 3,421,443</u>	<u>\$ 3,286,410</u>	<u>\$ 19,012</u>	<u>\$ 6,726,865</u>	<u>\$ 701,810</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Fund
<b>Operating Revenues:</b>					
Charges for services	\$ 452,204	\$ 646,341	\$ 184,715	\$ 1,283,260	\$ 328,710
Hydrant Rental	10,000	-	-	10,000	-
Other	17,889	30,868	-	48,757	-
Total Operating Revenues	<u>480,093</u>	<u>677,209</u>	<u>184,715</u>	<u>1,342,017</u>	<u>328,710</u>
<b>Operating Expenses:</b>					
Personal services	153,465	188,338	-	341,803	57,111
Administrative expenses	74,000	74,000	30,000	178,000	35,000
Supplies and postage	18,729	20,246	1,630	40,605	2,777
Other services	147,498	199,817	161,764	509,079	111,752
Depreciation	113,189	163,877	-	277,066	114,311
Total Operating Expenses	<u>506,881</u>	<u>646,278</u>	<u>193,394</u>	<u>1,346,553</u>	<u>320,951</u>
Operating Income (Loss)	<u>( 26,788)</u>	<u>30,931</u>	<u>( 8,679)</u>	<u>( 4,536)</u>	<u>7,759</u>
<b>Non-Operating Revenues (Expenses):</b>					
Loss on sale of assets	( 119)	-	-	( 119)	-
Interest earned	705	3,752	369	4,826	3,414
Interest expenses/fees	( 10,041)	( 78,436)	-	( 88,477)	( 2,362)
Total Non-Operating Revenues	<u>( 9,455)</u>	<u>( 74,684)</u>	<u>369</u>	<u>( 83,770)</u>	<u>1,052</u>
Net Income (Loss)	( 36,243)	( 43,753)	( 8,310)	( 88,306)	8,811
Net Assets at beginning of year	<u>3,457,686</u>	<u>3,330,163</u>	<u>27,322</u>	<u>6,815,171</u>	<u>692,999</u>
Net Assets at end of year	<u>\$ 3,421,443</u>	<u>\$ 3,286,410</u>	<u>\$ 19,012</u>	<u>\$ 6,726,865</u>	<u>\$ 701,810</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF DURAND, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Fund
<b>Cash Flows From Operating Activities:</b>					
Cash receipts from customers	\$ 454,263	\$ 656,078	\$ 183,284	\$ 1,293,625	\$ -
Cash receipts from interfund services	-	-	-	-	328,710
Cash payments to suppliers	( 190,008)	( 183,785)	( 150,879)	( 524,672)	( 136,151)
Cash payments to employees	( 223,408)	( 260,885)	( 30,000)	( 514,293)	( 91,729)
Net Cash Provided by Operating Activities	<u>40,847</u>	<u>211,408</u>	<u>2,405</u>	<u>254,660</u>	<u>100,830</u>
<b>Cash Flows From Noncapital Financing Activities:</b>					
Due (from)/to other funds	<u>85,529</u>	<u>( 64,411)</u>	<u>-</u>	<u>21,118</u>	<u>(15,612)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Note Proceeds	200,000	200,000	-	400,000	227,307
Bond/Note payments	-	( 65,000)	-	( 65,000)	( 17,644)
Interest Paid on long term debt	( 10,041)	( 78,436)	-	( 88,477)	( 2,362)
Acquisition and construction of capital assets	( 208,364)	( 87,437)	-	( 295,801)	( 250,721)
Net Cash Used by Capital and Related Financing Activities	<u>( 18,405)</u>	<u>( 30,873)</u>	<u>-</u>	<u>( 49,278)</u>	<u>( 43,420)</u>
<b>Cash Flows From Investing Activities:</b>					
Purchase of investments	-	( 2,605)	-	( 2,605)	-
Interest earned	705	3,752	369	4,826	3,414
Net Cash Provided by Investing Activities	<u>705</u>	<u>1,147</u>	<u>369</u>	<u>2,221</u>	<u>3,414</u>
Net Increase (Decrease) in Cash and Cash Equivalents for the year	108,676	117,271	2,774	228,721	45,212
Cash and Cash Equivalents at Beginning of Year	<u>9,055</u>	<u>32,449</u>	<u>22,256</u>	<u>63,760</u>	<u>199,830</u>
Cash and Cash Equivalents at End of Year	<u>\$ 117,731</u>	<u>\$ 149,720</u>	<u>\$ 25,030</u>	<u>\$ 292,481</u>	<u>\$ 245,042</u>
<b>Reconciliation of Net Income (Loss) to:</b>					
Net Cash Provided (Used) by Operating Activities:					
Operating income (loss) for the year	\$( 26,788)	\$ 30,931	\$( 8,679)	\$( 4,536)	\$ 7,759
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -					
Depreciation	113,189	163,877	-	277,066	114,311
Change in assets and liabilities:					
Receivable	( 25,305)	( 21,131)	( 1,431)	( 47,867)	-
Prepaid and deposits	( 977)	( 262)	-	( 1,239)	( 304)
Inventory	( 1,471)	( 2,005)	-	( 3,476)	564
Accounts payable/accrued expenses	( 17,801)	39,998	12,515	34,712	( 21,500)
Net Cash Provided (Used) By Operating Activities	<u>\$ 40,847</u>	<u>\$ 211,408</u>	<u>\$ 2,405</u>	<u>\$ 254,660</u>	<u>\$ 100,830</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DURAND, MICHIGAN

## STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS JUNE 30, 2005

	Other Employee Benefit Trust Fund	Tax Agency Fund
	<u>                    </u>	<u>                    </u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 27,423	\$ 30,445
Prepaid insurance	<u>28,438</u>	<u>-</u>
Total Assets	<u><u>\$ 55,861</u></u>	<u><u>\$ 30,445</u></u>
<b>LIABILITIES:</b>		
Accounts payable	\$ 10,340	\$ -
Accrued liabilities	2,700	-
Due to other governmental units	-	29,239
Undistributed taxes	-	1,206
Accrued vacation and sick	<u>42,821</u>	<u>-</u>
Total Liabilities	<u><u>\$ 55,861</u></u>	<u><u>\$ 30,445</u></u>
<b>NET ASSETS:</b>	<u><u>\$ -</u></u>	

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2005

<b>Additions:</b>	
Contributions	<u>\$ 467,144</u>
<b>Deductions:</b>	
Life and disability	12,465
Workman's compensation	24,958
Retirement	101,214
Hospitalization, Eye and dental	<u>328,507</u>
Total Deductions	<u><u>467,144</u></u>
Net Change	-
Net assets held in trust for pension benefits	
Beginning of year	<u>-</u>
End of year	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.



**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Reporting Entity –**

The City of Durand, Michigan, was incorporated March 14, 1932, under the provisions of Act 279, PA 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police, fire and inspection), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governments' operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate for the City.

**DISCRETELY PRESENTED COMPONENT UNIT –**

**CITY OF DURAND DOWNTOWN DEVELOPMENT AUTHORITY (DDA)** – The Downtown Development Authority (DDA) was established in 1991. The DDA is organized under P.A. 197, of 1975. The purpose of the DDA is to revitalize and prevent deterioration of the central business district, to encourage historic preservation, authorize the acquisition and disposal of interests in real and personal property, seek out and attract new business interest, authorize the creation and implementation of redevelopment plans in the district, promote economic growth of the district and implement programs to eliminate the further decline of properties and their values in the district.

The City of Durand Downtown Development Authority (DDA) is reported discretely to emphasize that it is legally separate from the City. The DDA Board is comprised of up to thirteen members and one ex-officio member appointed by the Mayor with City Council's approval. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The Authority must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Durand City Council.

**RELATED ORGANIZATIONS** - The Durand Union Station, Inc. (a non-profit 501(c)(3) corporation) was organized for the development and operation of the Durand Union Station, Inc. Although the building is owned by the City, the financial statements of the Durand Union Station, Inc. are not included in the City's financial statements since the City Council does not appoint board members and the City is not fiscally responsible for the operation.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**B. Government-wide and fund financial statements –**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component unit* for which the primary governments is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and payable at that time, are recognized as revenue in the year due. Also only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** – is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Street Fund** – is a special revenue fund used to account for Act 51 money and other related revenues restricted for major streets maintenance and improvements.

**Local Street Fund** – is a special revenue fund used to account for Act 51 money and other related revenues restricted for local streets maintenance and improvements.

The City reports the following major proprietary funds:

**Water Supply System Fund** – is used to account for the treatment and distribution of water to residential and commercial users.

**Wastewater Fund** – is used to account for sanitary sewer services provided to the residential and commercial users.

**Refuse Services Fund** – is used to account for the operations and activities of garbage collection and recycling for residential customer within the City of Durand.

Additionally, the City reports the following fund types –

**Special Revenue Funds** – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

**Debt Service Funds** – are used to account for the accumulation of resources for, and the payment of long-term general obligation debt of governmental funds.

## CITY OF DURAND, MICHIGAN

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

**Capital Projects Fund** – are used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

**Internal Service Fund** – is used to account for the costs of operating and maintaining the City's equipment. Charges are made to other funds based on equipment used.

**Other Employee Trust Funds** – is used to accumulate resources for insurance, health benefits, and vested vacation and sick for qualified employees.

**Tax Agency Trust Fund** – is used to account for collection and distribution of taxes. The Agency Fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise and Internal Services Funds are charges to customers for sale and services. Operating expenses from Enterprise and Internal Service Funds include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources as they are needed.

#### **D. Assets, Liabilities and Net Assets or Equity –**

##### **Deposits and Investments –**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value. Investments are certificates of deposit with a maturity of greater than ninety days from purchase date.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

**Receivables and Payables –**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**Property Tax Receivables –**

All delinquent real property taxes, utility charges and special assessments become liens against the related property and are reimbursed by Shiawassee County’s Delinquent Tax Revolving Fund. The County will, however, charge back to the City any amounts not collected at the end of three years.

**Allowances For Doubtful Accounts Receivable –**

The City utilizes the direct write-off method for all funds. Past experience has indicated the write-off of accounts receivable are immaterial and do not warrant the use of a contra account for this allowance.

**Inventories and Prepaid Items –**

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds, except DPW supplies are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Property Tax Calendar –**

Taxes are levied on July 1 and are payable at that time. The City bills and collects its own property taxes and also collects taxes for the County, intermediate school district, community college, library and local school district. Collections of all taxes other than City taxes and the remittance of them are accounted for in the Tax Collection Fund.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

The City is permitted by state statute to levy taxes of 22 mills for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The City levied 15.5 mills for general governmental purposes plus 3.25 mills for debt service and 1.2966 mills for streets for a total of 20.1497 mills.

**Capital Assets –**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure (principally roads and sidewalks) acquired prior to July 1, 2003.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>	<u>Component Unit (DDA)</u>
Buildings and Building Improvements	30-50	-
Machinery and equipment	3-30	-
Vehicles	3-12	-
Streets/Street lights	20-30	30
Water and sewer system	5-50	-
Drains	-	50
Roads and sidewalks	5-50	-

**Compensated Absences –**

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The City has elected to fund vacation and sick time as it is earned. As a result these amounts are appropriately accounted for in the Other Employee Benefit Trust Fund.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Long-Term Obligations –**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity –**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates -**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Budgetary Information –**

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- 1) Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budgets include proposed expenditures and the means of financing them.

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

### NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont'd):

- 2) A Public Hearing is conducted to obtain taxpayers' comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.  
The budgets are legally enacted at the activity level for the General Fund and total fund level for the Special Revenue Funds and Downtown Development Authority.
- 4) Any amendments to the budget must be approved by City Council.
- 5) Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue Funds and the Downtown Development Authority.
- 6) Budget appropriations lapse at year end.
- 7) The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.

The general fund budget is approved at the activity level and the total expenditure level for the Special Revenue Funds. Expenditures at these legally adopted levels are a violation of the Budgetary Act. During the year the City incurred expenditures in the General and Special Revenue Fund which was in excess of the amount appropriated as follows:

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
General Fund –			
General Government –			
Legislative	\$ 20,500	\$ 21,892	\$ 1,392
City Manager	94,200	94,300	100
Elections	9,900	9,983	83
Assessor	26,050	28,106	2,056
Treasurer	119,600	120,486	886
General Administration	729,825	734,050	4,225
Planning	58,650	60,854	2,204
Public Safety –			
Police Department	600,500	619,963	19,463
Fire Department	91,100	91,239	139
Public Works –			
Director of Public Works	70,600	71,990	1,390
Recreation and Cultural –			
Parks and Recreation	65,900	80,919	15,019
Major Street Fund –	293,500	321,431	27,931
Local Street Fund –	179,500	250,260	70,760
Street Fund –	93,400	150,800	57,408



# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

### NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont’d):

Other –

Although the City complies with Michigan Compiled Laws, the City’s investment policy requires that various information be obtained from each financial institution, the certain quarterly reporting of investments be made to the City Council, and that certificates of deposit be collateralized at 102% of market value of principle and accrued interest. We noted that the City was not in compliance in these areas.

### NOTE 3 – DEPOSITS AND INVESTMENTS:

At year end, the carrying amount of the City Reporting Entity’s deposits and investments are as follows:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Unit</u>	<u>Reporting Entity</u>
Deposits -				
Petty cash and cash on hand	\$ 250	\$ 50	\$ -	\$ 300
Deposits with Financial Institutions -				
Checking/Money Market	102,356	87,931	57,868	248,155
Certificates of Deposit	<u>334,426</u>	<u>-</u>	<u>-</u>	<u>334,426</u>
Total Deposits	437,032	87,981	57,868	582,881
Investments -				
Investment Trusts/Mutual Funds	<u>771,013</u>	<u>-</u>	<u>-</u>	<u>771,013</u>
	<u>\$ 1,208,045</u>	<u>\$ 87,981</u>	<u>\$ 57,868</u>	<u>\$1,353,894</u>

### Reconciliation To Combined Balance Sheet

Reported as Cash and Cash Equivalents -				
Petty Cash and Cash On Hand	250	50	-	300
Cash in Checking/Money Market	102,356	87,931	57,868	248,155
Certificates of Deposit	200,000	-	-	200,000
Investment Trust/Mutual Funds	<u>771,013</u>	<u>-</u>	<u>-</u>	<u>771,013</u>
Total Cash and Cash Equivalents				
Reported on Combined Balance Sheet	1,073,619	87,981	57,868	1,219,468
Reported as Investments -				
CD’s	<u>134,426</u>	<u>-</u>	<u>-</u>	<u>134,426</u>
Grand Total - Combined Balance Sheet	<u>\$ 1,208,045</u>	<u>\$ 87,981</u>	<u>\$ 57,868</u>	<u>\$1,353,894</u>

## CITY OF DURAND, MICHIGAN

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

#### NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):

Safety of principal is the primary objective of the City's investment policy. Deposits and investments of the City should be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain the objective, diversification is required in order that potential losses in individual securities do not exceed the income generated from the remainder of the portfolio.

*Custodial Credit Risk* – is the risk that in the event of a bank failure, the City's deposits or investments may not be returned. The City policy requires all financial institutions provide certain information to the City regarding the financial strength of the institution and that the Treasurer conduct an annual review. The City's investment policy also requires collateralization of 102% of the market value of principle and accrual interest for all certificates of deposit.

*Interest Rate Risk* – is the risk that the market value of securities in the City's portfolio will fall due to changes in market interest increases. The City policy attempts to minimize interest rate risk by avoiding the need to sell securities prior to maturity and investing operating funds primarily in short term securities, money markets mutual funds or similar public investment pools.

*Credit Risk* – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws limit the types of investments the City can purchase.

*Concentration of Credit Risk* – is the risk of loss attributed to the magnitude of the City's investments in a single issuer. The City's investment policy requires that it diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

#### **Deposits –**

The City's investment policy and Act 217 PA 1982, as amended, authorizes the City to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2005, the bank balance of the City's deposits were \$658,132 of which \$378,553 was FDIC insured with the balance \$279,579 exposed to credit risk because they are uninsured and uncollateralized.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):**

**Investments –**

Act 20 PA 1994, as amended by Act 1997 PA 1999, authorizes the City to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase; are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.188; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

At June 30, 2005, the City was invested in one mutual fund with SEI Investments in the amount of \$771,013. The fund invests exclusively in U.S. Treasury obligations and repurchase agreements fully collateralized by U.S. Treasury obligations. The fund has an AAA rating and an average weighted maturity of 15 days.

**NOTE 4 – RECEIVABLES:**

Receivables in the governmental and business type activities are as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Interest and accounts	\$ 17,754	\$ 288,988
Special Assessments	20,589	-
Intergovernmental –		
Federal/State	339,826	-
Local	<u>2,461</u>	<u>-</u>
	<u>\$ 380,630</u>	<u>\$ 288,988</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Major Street Fund –	
Grants	\$ 21,300
Non-Major Governmental Funds –	
Special Assessments	<u>17,401</u>
	<u>\$ 38,701</u>

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

### NOTE 5 – CAPITAL ASSETS:

#### Primary Government

Capital asset activity of the primary government for the year ended June 30, 2005 was as follows:

	July 1, 2004			June 30, 2005
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,003,610	\$ 491,585	\$ -	\$ 1,495,195
Construction in progress	<u>-</u>	<u>26,325</u>	<u>-</u>	<u>26,325</u>
Total capital assets not being depreciated	<u>1,003,610</u>	<u>517,910</u>	<u>-</u>	<u>1,521,520</u>
Capital assets, being depreciated:				
Buildings and improvements	3,290,837	-	-	3,290,837
Machinery and equipment	854,875	6,042	4,125	856,792
Vehicles	905,462	250,721	-	1,156,183
Infrastructure	<u>207,618</u>	<u>390,828</u>	<u>-</u>	<u>598,446</u>
Total capital assets being depreciated	<u>\$ 5,258,793</u>	<u>\$ 647,591</u>	<u>\$ 4,125</u>	<u>\$ 5,902,259</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 836,854	\$ 61,451	\$ -	\$ 898,305
Infrastructure	5,574	13,016	-	18,590
Machinery and equipment	533,681	73,449	4,125	603,005
Vehicles	<u>598,632</u>	<u>66,136</u>	<u>-</u>	<u>664,768</u>
Total accumulated depreciation	<u>1,974,741</u>	<u>214,052</u>	<u>4,125</u>	<u>2,184,668</u>
Total capital assets being depreciated, net	<u>3,284,051</u>	<u>433,539</u>	<u>-</u>	<u>3,717,590</u>
Governmental activities capital assets, net	<u>\$ 4,287,661</u>	<u>\$ 951,449</u>	<u>\$ -</u>	<u>\$ 5,239,110</u>
<b>Business Type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 151,400	\$ -	\$ -	\$ 151,400
Construction in progress	<u>24,076</u>	<u>-</u>	<u>10,650</u>	<u>13,426</u>
Total capital assets, not being depreciated	<u>175,476</u>	<u>-</u>	<u>10,650</u>	<u>164,826</u>
Capital assets, being depreciated:				
Buildings and improvements	3,784,514	-	-	3,784,514
Machinery and equipment	81,917	11,724	-	93,641
Waste Water System	4,230,256	75,713	-	4,305,969
Water System	<u>4,320,679</u>	<u>219,014</u>	<u>3,404</u>	<u>4,536,289</u>
Total capital assets being depreciated	<u>12,417,366</u>	<u>306,451</u>	<u>3,404</u>	<u>12,720,413</u>
Less accumulated depreciation	<u>4,857,502</u>	<u>277,066</u>	<u>3,285</u>	<u>5,131,283</u>
Total Capital assets being depreciated, net	<u>7,559,864</u>	<u>29,385</u>	<u>119</u>	<u>7,589,130</u>
Business activities capital assets, net	<u>\$ 7,735,340</u>	<u>\$ 29,385</u>	<u>\$ 10,769</u>	<u>\$ 7,753,956</u>

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

### NOTE 5 – CAPITAL ASSETS – (cont'd):

Component Unit (DDA):	July 1, 2004 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2005 <u>Balance</u>
Capital assets, being depreciated:				
Street lights	\$ 204,000	\$ -	\$ -	\$ 204,000
Drain improvements	<u>48,000</u>	<u>-</u>	<u>-</u>	<u>48,000</u>
Total capital assets being depreciated	252,000	-	-	252,000
 Less accumulated depreciation	 <u>69,840</u>	 <u>7,760</u>	 <u>-</u>	 <u>77,600</u>
 Total capital assets being depreciated, net	 <u>\$ 182,160</u>	 <u>\$ 7,760</u>	 <u>\$ -</u>	 <u>\$ 174,400</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 21,355
Public Safety	10,486
Public Works	14,325
Recreation and Cultural	<u>53,575</u>
 Total depreciation expense-governmental activities	 <u>\$ 99,741</u>
Business-type activities:	
Water Fund	\$ 113,189
Sewer Fund	<u>163,877</u>
 Total depreciation expense-business-type activities	 <u>\$ 277,066</u>

In addition there was depreciation of \$114,311 in the Equipment Revolving Fund.

### NOTE 6 – PAYABLES:

Payables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts payable/accrued liabilities	\$ 188,465	\$ 62,358
Accrued wages and fringe benefits	<u>13,214</u>	<u>4,519</u>
	<u>\$ 201,679</u>	<u>\$ 66,877</u>

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 7 – INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:**

The composition of interfund balances as of June 30, 2005:

**Due To/From Other Funds –**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Optimist Park	\$ 100,052
	Water Fund	2,753
	Wastewater Fund	2,753
Local Street Fund	General Fund	<u>11,860</u>
Total Governmental funds		\$ 117,418
Internal Service Fund	Wastewater Fund	<u>15,612</u>
		<u>\$ 133,030</u>

**Advance To/From Other Funds –**

General Fund	Wastewater Fund	<u>\$ 74,481</u>
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**Transfers From/To Other Funds -**

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Local Street Fund	Major Street Fund	\$ 18,000
	Street Fund	150,800
Building Inspection Fund	General Fund	3,050
Fire Hall Debt Retirement Fund	General Fund	33,558
Industrial Complex Fund	General Fund	<u>1,400</u>
Total Transfers		<u>\$ 206,808</u>

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 8 - LONG-TERM LIABILITIES:**

**PRIMARY GOVERNMENT -**

The following is a summary of changes in the long-term liabilities (including current portions) for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
<u>Governmental Activities:</u>					
Governmental Funds -					
2002 Limited Tax Bond	\$ 250,000	\$ -	\$ 25,000	\$ 225,000	\$ 30,000
2001 Sewer Refunding Bond	385,000	-	25,000	360,000	25,000
2001 Water Refunding Bond	2,130,000	-	50,000	2,080,000	60,000
2005 Installment Purchase Contract	-	490,000	11,670	478,330	24,441
Total Governmental Funds	<u>2,765,000</u>	<u>490,000</u>	<u>111,670</u>	<u>3,443,330</u>	<u>139,441</u>
Internal Service Fund -					
Installment Loans	54,045	-	17,644	36,401	18,570
2005 Installment Purchase	-	227,307	-	227,307	18,889
Compensated Absences	2,731	208	-	2,939	-
Total Internal Service Fund	<u>56,776</u>	<u>227,515</u>	<u>17,644</u>	<u>266,647</u>	<u>37,459</u>
Total Governmental Activities	<u>2,821,776</u>	<u>717,515</u>	<u>129,314</u>	<u>3,409,977</u>	<u>176,900</u>
<u>Business-Type Activities:</u>					
Enterprise Funds -					
Wastewater Fund -					
Wastewater Treatment Bonds,					
Series 1998	135,000	-	30,000	105,000	30,000
2004 Capital Improvement					
Bond	-	200,000	-	200,000	25,000
Wastewater Treatment Bonds,					
Series 1999	1,140,000	-	35,000	1,105,000	35,000
2004 Capital Improvement					
Bond	-	200,000	-	200,000	25,000
Compensated Absences	3,661	1,324	-	4,985	-
Water Fund -					
Compensated Absences	749	3,430	-	4,179	-
Total Business-Type Activities	<u>1,279,410</u>	<u>4,754</u>	<u>65,000</u>	<u>1,619,164</u>	<u>115,000</u>
<u>Fiduciary Activities:</u>					
Agency Fund -					
Employee Benefit Fund -					
Compensated Absences	35,463	4,335	-	39,798	-
Total Entity Primary Government	<u>\$ 4,136,649</u>	<u>\$ 1,126,604</u>	<u>\$ 194,314</u>	<u>\$ 5,068,939</u>	<u>\$ 291,900</u>

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

**General Obligation Bonds -**

\$300,000 General Obligation Unlimited Tax Bonds,  
dated October 7, 2002, due in annual installments  
of \$30,000 to \$35,000 through May 1, 2012, with  
interest of 2.25% to 3.85% payable semi-annually

\$ 225,000

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

\$450,000, General Obligation Unlimited Tax Sewer Refunding Bonds, dated July 17, 2001 due in annual installments of \$25,000 to \$50,000 through May 1, 2015, with interest ranging from 4.50% to 5% payable semi-annually

\$ 360,000

\$2,255,000, General Obligation Unlimited Tax Water Refunding Bonds, dated July 17, 2001, due in annual installments of \$60,000 to \$285,000 through May 1, 2019, with interest ranging from 3.3% to 5% payable semi-annually

2,080,000

\$ 2,665,000

**Water and Wastewater Treatment Bonds –**

\$250,000, Sewage Disposal System Revenue Bonds, dated July 1, 1999, due in annual installments of \$30,000 to \$40,000 through July 1, 2008, with interest of 4.5% payable semi-annually

\$ 105,000

\$1,300,000 Sewage Disposal System Revenue Bonds, dated September 23, 1999, due in annual installments of \$35,000 to \$100,000 through May 1, 2018, with interest of 5.30% to 5.65% payable semi-annually

1,105,000

\$400,000, General Obligation Limited Tax Capital Improvement Bonds, dated October 12, 2004, due in annual installments of \$50,000 to \$65,000 through October 1, 2011, with interest of 2.75% to 3.30% payable semi-annually. The bonds are being repaid 50% from the Water Fund and 50% from the Sewer Fund.

400,000

\$ 1,610,000

**Installment Loan Funds -**

The City has entered into a vendor financing agreement to finance the purchase of a fire truck. The vendor subsequently assigned its interest in the contract to a local bank to which installment payments are made by the City on a quarterly basis.

\$ 36,401

On September 2, 2004, the City of Durand entered into an installment purchase agreement to finance a purchase of real estate in the amount of \$490,000. The note is payable over fifteen years with an interest rate of 4.25%.

478,330



**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

On April 15, 2005, the City of Durand entered into an installment purchase agreement to finance a purchase of a cleaner mounted truck in the amount of \$227,307. The note is payable over ten years with an interest rate of 4.05%.

227,307  
\$ 742,038

**Compensated Absences -**

In accordance with contracts negotiated with the various employee groups of the City of Durand, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the financial statements in the Water Fund, Wastewater Fund, Equipment Revolving Fund and Employee Benefits Fund in the amounts of \$4,179, \$4,985, \$2,939 and \$39,798, respectively at June 30, 2005.

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2005 (excluding compensated absences) are as follows:

Year Ending June 30,	Water and Wastewater Bonds						Capital	
	General Obligation Bonds		Revenue Bonds		Installment Loan		Improvement Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 115,000	\$ 122,848	\$ 65,000	\$ 64,590	\$ 61,900	\$ 21,614	\$ 80,000	\$ 10,803
2007	125,000	118,706	70,000	61,385	62,975	27,971	55,000	9,359
2008	140,000	113,988	75,000	57,955	47,035	25,572	55,000	7,845
2009	150,000	108,478	100,000	54,300	49,005	23,603	55,000	6,403
2010	165,000	102,313	100,000	49,000	51,058	21,550	60,000	4,810
2011-2015	950,000	394,628	500,000	165,000	289,218	179,117	125,000	4,148
2016-2020	<u>1,020,000</u>	<u>132,500</u>	<u>300,000</u>	<u>33,650</u>	<u>180,847</u>	<u>19,780</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,665,000</u>	<u>\$ 1,093,461</u>	<u>\$ 1,210,000</u>	<u>\$ 485,880</u>	<u>\$ 742,038</u>	<u>\$ 319,207</u>	<u>\$ 400,000</u>	<u>\$ 43,418</u>

**COMPONENT UNIT -**

The following is a summary of changes in long-term liabilities (including current portion) of the Component Unit for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
Downtown Development Authority – Tax Increment Development Bonds	<u>\$ 115,000</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ 95,000</u>	<u>\$ 20,000</u>

\$225,000 Limited Tax General Obligation Tax Increment Development Bonds, dated December 7, 1994, due in annual installments increasing from \$20,000 to \$25,000 through May 1, 2009, with interest ranging from 5.00% to 7.00% payable semi-annually

\$ 95,000

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

The annual debt service requirements to maturity for the long-term obligations outstanding at June 30, 2005 are as follows:

<u>Year Ending June 30,</u>	<u>Development Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 20,000	\$ 5,324
2007	25,000	4,076
2008	25,000	2,500
2009	<u>25,000</u>	<u>1,250</u>
	<u>\$ 95,000</u>	<u>\$ 13,150</u>

**NOTE 9 – RETIREMENT PLANS:**

**Plan Description –**

The City of Durand participates in the Municipal Employees Retirement System (MERS), a multiple employer statewide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy –**

The plan adopted by the City Council requires no member contributions. The City is required to contribute at an actuarially determined rate; the rate for 2005 was 8.82% - 11.74% of payroll for general government and police/fire departments, respectively. The contribution requirements of plan members and the City are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

**Annual Pension Costs –**

For fiscal 2005, the City's annual pension cost of \$101,213 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation and (c) additional projected salary increases ranging from 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 9 – RETIREMENT PLANS - (cont'd):**

**Three-Year Trend Information**

Fiscal Year Ending June 30,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2003	\$ 82,406	100 %	-
2004	91,349	100	-
2005	101,213	100	-

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2002	2,505,308	3,032,269	526,961	83	940,369	56
2003	2,626,610	3,143,303	516,693	84	955,518	54
2004	2,755,571	3,370,613	615,042	85	1,001,469	61

**NOTE 10 - POST RETIREMENT BENEFITS:**

In addition to the pension benefits described in Note 9, the City provides Health Care coverage for retired employees with twenty-five (25) years of service and for employees with less than twenty-five (25) years of service, if age sixty (60) has been reached. Employees receive upon retirement and eligibility for a pension from the City, four percent (4%) per year of service, paid toward the above stated coverage. The expenditures for the post-retirement health care benefits are recognized on a pay-as-you-go basis. The expenditures for retirees health insurance amount to \$66,863 for 2005.

**NOTE 11 - RISK MANAGEMENT:**

**General Liability**

The City participates in the Michigan Municipal League Liability and Property Pool liability insurance program. In general, the City carries \$10,000,000 of liability coverage and approximately \$17,595,000 of property insurance with a \$1,000 per claim deductible on property and computer equipment, and a \$1,000 per claim deductible on equipment and mechanical systems.

**Workers' Compensation**

The City participates in the Michigan Municipal Workers' Compensation Self-Insurance Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

### NOTE 12 - CONTINGENCIES:

The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2005.

### NOTE 13 – FUND EQUITY – RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS:

#### Reserved Fund Balance –

Fund Balance has been reserved in the following funds to indicate a portion of fund balance is not available but reserved for a specific purpose at June 30, 2005.

#### Primary Government –

##### General Fund –

Advance to Other Funds	\$ 74,481
Prepaid and Deposits	39,670
Inventory	745
Park Donation	23,243
Drug Forfeiture	2,136
Park Development	1,760
Playground Development	<u>946</u>
	<u>142,981</u>

##### Major Street Fund –

Inventory	<u>1,403</u>
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##### Local Street Fund –

Inventory	<u>845</u>
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##### Other Governmental Funds -

##### Fire Hall –

Debt Service	3,253
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##### 2001 Wastewater Treatment Plant Fund –

Debt Service	25,361
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##### 2001 Water Bond-

Debt service	70,049
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##### Industrial Complex –

Capital Project	51
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##### Depot Restoration –

Capital Project	8,626
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##### Optimist Park –

Capital Project	<u>7</u>
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Total Other Governmental Funds	<u>107,347</u>
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Total Primary Government	<u>\$ 252,576</u>
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**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 13 – FUND EQUITY – RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS – (cont'd):**

**Component Unit –**

Downtown Development Authority –

Friday Night Live

Façade

\$ 11,990

12,101

\$ 24,091

**Designated Fund Balance –**

The City Council has designated \$100,000 of the General Fund Fund Balance for establishing a post retirement benefit fund.

**Reserved Retained Earnings –**

Retained Earnings has been reserved in the Water Fund at June 30, 2005 in the amount of \$15,000 to indicate a portion of retained earnings is reserved for well head protection and \$165,967 for Debt Service payments.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF DURAND, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Taxes	\$ 1,061,100	\$ 1,061,100	\$ 1,052,048	\$( 9,052)
Licenses and permits	27,000	27,000	28,682	1,682
Intergovernmental -				
Federal/State	559,475	559,475	531,193	( 28,282)
Charges for services	17,200	17,200	32,226	15,026
Fines and forfeits	11,000	11,000	18,598	7,598
Interest and rents	15,000	20,000	21,412	1,412
Other	1,000	1,000	4,428	3,428
	<u>1,691,775</u>	<u>1,696,775</u>	<u>1,688,587</u>	<u>( 8,188)</u>
<b>Expenditures:</b>				
General Government -				
Legislative	17,400	20,500	21,892	( 1,392)
City Manager	97,700	94,200	94,300	( 100)
Elections	9,000	9,900	9,983	( 83)
Assessor	20,700	26,050	28,106	( 2,056)
City Clerk	173,275	172,275	168,226	4,049
Treasurer	121,500	119,600	120,486	( 886)
General administration	288,400	729,825	734,050	( 4,225)
Planning	36,800	58,650	60,854	( 2,204)
	<u>764,775</u>	<u>1,231,000</u>	<u>1,237,897</u>	<u>( 6,897)</u>
Less: Reimbursement from other funds	<u>( 230,000)</u>	<u>( 230,000)</u>	<u>( 230,000)</u>	<u>-</u>
Total General Government	<u>534,775</u>	<u>1,001,000</u>	<u>1,007,897</u>	<u>( 6,897)</u>
Public Safety -				
Police department	588,300	600,500	619,963	( 19,463)
Fire department	94,200	91,100	91,239	( 139)
	<u>682,500</u>	<u>691,600</u>	<u>711,202</u>	<u>( 19,602)</u>
Public Works -				
Director of public works	71,000	70,600	71,990	( 1,390)
Department of public works	370,900	364,600	351,579	13,021
	<u>441,900</u>	<u>435,200</u>	<u>423,569</u>	<u>11,631</u>
Recreational and Cultural-				
Parks and recreation	65,900	65,900	80,919	(15,019)
Debt Service				
Principal	-	11,675	11,670	5
Interest	-	10,600	10,586	14
	<u>-</u>	<u>22,275</u>	<u>22,256</u>	<u>19</u>
Total Expenditures	<u>1,725,075</u>	<u>2,215,975</u>	<u>2,245,843</u>	<u>(29,887)</u>
Excess of revenues under expenditures	<u>( 33,300)</u>	<u>( 519,200)</u>	<u>( 557,256)</u>	<u>( 38,075)</u>

Continued

**CITY OF DURAND, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Other Financing Sources (Uses):</b>				
Loan Proceeds	\$ -	\$ -	\$ 490,000	\$ 490,000
Transfer Out-				
Building	-	( 3,500)	( 3,050)	450
Capital Improvement	-	( 5,500)	-	5,500
Industrial Complex		( 1,400)	( 1,400)	-
Fire Hall Debt	( 33,600)	( 33,600)	( 33,558)	42
Total other financing sources (uses)	( 33,600)	( 44,000)	451,992	495,992
Excess of revenues over (under) expenditures and other uses	( 66,900)	( 563,200)	( 105,264)	457,917
Fund Balance at beginning of year	709,012	709,012	709,012	-
Fund Balance at end of year	<u>\$ 642,112</u>	<u>\$ 145,812</u>	<u>\$ 603,748</u>	<u>\$ 457,917</u>

Concluded



**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
MAJOR STREET FUND  
FOR THE YEAR ENDED JUNE 30, 2005**

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental -				
State	\$ 172,700	\$ 172,700	\$ 174,922	\$ 2,222
Interest	100	100	436	336
	<u>172,800</u>	<u>172,800</u>	<u>175,358</u>	<u>2,558</u>
<b>Expenditures:</b>				
Public Works -				
Administration	24,000	24,000	6,000	18,000
Maintenance	349,400	231,100	259,041	( 27,941)
Winter Maintenance	31,000	38,400	38,390	10
	<u>404,400</u>	<u>293,500</u>	<u>303,431</u>	<u>( 9,931)</u>
Excess of revenues under expenditures	<u>( 231,600)</u>	<u>( 120,700)</u>	<u>( 128,073)</u>	<u>( 7,373)</u>
<b>Other Financing Uses:</b>				
Transfers in -				
Street Fund	97,700	97,700	-	( 97,700)
Transfers out -				
Local Street Fund	-	-	( 18,000)	( 18,000)
	<u>97,700</u>	<u>97,700</u>	<u>( 18,000)</u>	<u>( 115,700)</u>
Excess of revenues and other sources under expenditures and other uses	<u>( 133,900)</u>	<u>( 23,000)</u>	<u>( 146,073)</u>	<u>( 123,073)</u>
Fund Balance at beginning of year	<u>161,367</u>	<u>161,367</u>	<u>161,367</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 27,467</u></u>	<u><u>\$ 138,367</u></u>	<u><u>\$ 15,294</u></u>	<u><u>\$( 123,073)</u></u>

# CITY OF DURAND, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL LOCAL STREET FUND FOR THE YEAR ENDED JUNE 30, 2005

	Budget			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Intergovernmental -				
State	\$ 70,100	\$ 70,100	\$ 79,677	\$ 9,577
Interest	-	-	74	74
	<u>70,100</u>	<u>70,100</u>	<u>79,751</u>	<u>9,651</u>
<b>Expenditures:</b>				
Public Works -				
Administration	6,000	6,000	6,000	-
Maintenance	61,900	150,500	221,173	( 70,673)
Winter Maintenance	20,200	23,000	23,087	( 87)
	<u>88,100</u>	<u>179,500</u>	<u>250,260</u>	<u>( 70,760)</u>
Excess of revenues under expenditures	<u>( 18,000)</u>	<u>( 109,400)</u>	<u>( 170,509)</u>	<u>( 61,109)</u>
<b>Other Financing Sources:</b>				
Transfers in -				
Major Street Fund	18,000	18,000	18,000	-
Street Fund	-	-	150,800	150,800
	<u>18,000</u>	<u>18,000</u>	<u>168,800</u>	<u>150,800</u>
Excess of revenues and other sources over (under) expenditures	-	( 91,400)	( 1,709)	89,691
Fund Balance at beginning of year	<u>14,438</u>	<u>14,438</u>	<u>14,438</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 14,438</u>	<u>\$( 76,962)</u>	<u>\$ 12,729</u>	<u>\$ 89,691</u>

## **OTHER SUPPLEMENTARY INFORMATION**

# CITY OF DURAND, MICHIGAN

## NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2005

	Special Revenue Funds			
	Street	Sidewalks & Curbs	Building Inspection	DUS Centennial Commission
<b>ASSETS</b>				
Cash and cash equivalents	\$ 45,327	\$ 9,761	\$ 32	\$ 5,271
Receivables				
Accounts	249	-	-	700
Special Assessments Receivable	9,698	10,891	-	-
Due from other governmental units - Federal/State	-	-	-	-
Total Assets	<u>\$ 55,274</u>	<u>\$ 20,652</u>	<u>\$ 32</u>	<u>\$ 5,971</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ 638
Due to other funds	-	-	-	-
Deferred revenue	7,274	10,127	-	-
Total Liabilities	<u>7,274</u>	<u>10,127</u>	<u>-</u>	<u>638</u>
<b>Fund Balance:</b>				
Reserved -				
Capital projects	-	-	-	-
Debt service	-	-	-	-
Unreserved -				
Undesignated	48,000	10,525	32	5,333
Total Fund Balance	<u>48,000</u>	<u>10,525</u>	<u>32</u>	<u>5,333</u>
Total Liabilities and Fund Balance	<u>\$ 55,274</u>	<u>\$ 20,652</u>	<u>\$ 32</u>	<u>\$ 5,971</u>

Debt Service Funds			Capital Project Funds			
Fire Hall	2001 Wastewater Treatment Plant	2001 Water Bond	Industrial Complex	Depot Restoration	Optimist Park	Total
\$ 3,253	\$ 25,361	\$ 70,049	\$ 51	\$ 12,247	\$ -	\$ 171,352
-	-	-	-	-	-	949
-	-	-	-	-	-	20,589
-	-	-	-	-	100,059	100,059
<u>\$ 3,253</u>	<u>\$ 25,361</u>	<u>\$ 70,049</u>	<u>\$ 51</u>	<u>\$ 12,247</u>	<u>\$ 100,059</u>	<u>\$ 292,949</u>
\$ -	\$ -	\$ -	\$ -	\$ 3,621	\$ -	\$ 4,259
-	-	-	-	-	100,052	100,052
-	-	-	-	-	-	17,401
-	-	-	-	3,621	100,052	121,712
-	-	-	51	8,626	7	8,684
3,253	25,361	70,049	-	-	-	98,663
-	-	-	-	-	-	63,890
<u>3,253</u>	<u>25,361</u>	<u>70,049</u>	<u>51</u>	<u>8,626</u>	<u>7</u>	<u>171,237</u>
<u>\$ 3,253</u>	<u>\$ 25,361</u>	<u>\$ 70,049</u>	<u>\$ 51</u>	<u>\$ 12,247</u>	<u>\$ 100,059</u>	<u>\$ 292,949</u>

# CITY OF DURAND, MICHIGAN

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Funds			
	Street	Sidewalks & Curbs	Building Inspection	DUS Centennial Commission
<b>Revenues:</b>				
Taxes	\$ 83,911	\$ -	\$ -	\$ -
Licenses and permits	-	-	17,687	-
Interest	3,316	109	-	-
Special assessment	3,595	24,094	-	-
Other	-	-	-	10,623
Total Revenues	<u>90,822</u>	<u>24,203</u>	<u>17,687</u>	<u>10,623</u>
<b>Expenditures:</b>				
Current -				
Public Safety	-	-	20,732	-
Public Works	-	32,374	-	-
Park and Recreation	-	-	-	12,347
Capital Outlay	-	-	-	-
Debt Service				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	<u>-</u>	<u>32,374</u>	<u>20,732</u>	<u>12,347</u>
Excess of revenues over (under) expenditures	<u>90,822</u>	<u>( 8,171)</u>	<u>( 3,045)</u>	<u>( 1,724)</u>
<b>Other Financing Sources (Uses):</b>				
Long-term debt proceeds	-	-	-	-
Discount on debt issued	-	-	-	-
Transfers In	-	-	3,050	-
Transfers (Out)	( 150,800)	-	-	-
Total Other Financing Sources	<u>( 150,800)</u>	<u>-</u>	<u>3,050</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	( 59,978)	( 8,171)	5	( 1,724)
Fund Balances at beginning of year	<u>107,978</u>	<u>18,696</u>	<u>27</u>	<u>7,057</u>
Fund Balances at end of year	<u>\$ 48,000</u>	<u>\$ 10,525</u>	<u>\$ 32</u>	<u>\$ 5,333</u>

Debt Service Funds			Capital Project Funds			Total
Fire Hall	2001 Wastewater Treatment Plant	2001 Water Bond	Industrial Complex	Depot Restoration	Optimist Park	
\$ -	\$ 51,634	\$ 160,243	\$ -	\$ -	\$ -	\$ 295,788
-	-	-	-	-	-	17,687
-	322	1,028	-	-	-	4,775
-	-	-	-	-	-	27,689
-	-	-	-	-	-	10,623
-	51,956	161,271	-	-	-	356,562
-	-	-	-	-	-	20,732
-	-	-	-	-	-	32,374
-	-	-	-	-	-	12,347
-	-	-	1,390	-	-	1,390
25,000	25,000	50,000	-	-	-	100,000
8,558	18,247	100,712	-	-	-	127,517
33,558	43,247	150,712	1,390	-	-	294,360
( 33,558)	8,709	10,559	( 1,390)	-	-	62,202
-	-	-	-	-	-	-
-	-	-	-	-	-	-
33,558	-	-	1,400	-	-	38,008
-	-	-	-	-	-	( 150,800)
33,558	-	-	1,400	-	-	( 112,792)
-	8,709	10,559	10	-	-	( 50,590)
3,253	16,652	59,490	41	8,626	7	221,827
\$ 3,253	\$ 25,361	\$ 70,049	\$ 51	\$ 8,626	\$ 7	\$ 171,237

# CITY OF DURAND, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2005

	Budget			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
STREET FUND				
Revenues:				
Taxes	\$ 85,000	\$ 85,000	\$ 83,911	\$( 1,089)
Special assessments	4,700	4,700	3,595	( 1,105)
Interest	200	200	3,316	3,116
	89,900	89,900	90,822	922
Expenditures:				
Public Works - Maintenance	97,000	93,400	-	93,400
Excess of revenues over (under) expenditures	( 7,100)	( 3,500)	90,822	94,322
Other Financing Uses:				
Transfers out - Local Street Fund	-	-	( 150,800)	( 150,800)
Excess of revenues under expenditures and other uses	( 7,100)	( 3,500)	( 59,978)	( 56,478)
Fund Balance at beginning of year	107,978	107,978	107,978	-
Fund Balance at end of year	\$ 100,878	\$ 104,478	\$ 48,000	\$( 56,478)

### SIDEWALKS & CURBS FUND

<b>Revenues:</b>				
Interest	\$ -	\$ -	\$ 109	\$ 109
Special Assessments	<u>6,300</u>	<u>6,300</u>	<u>24,094</u>	<u>17,794</u>
	6,300	6,300	24,203	17,903
<b>Expenditures:</b>				
Public Works -				
Contracted Services	<u>23,300</u>	<u>32,400</u>	<u>32,374</u>	<u>26</u>
Excess of revenues over (under)				
expenditures	( 17,000)	( 26,100)	( 8,171)	17,929
Fund Balance at beginning of year	<u>18,696</u>	<u>18,696</u>	<u>18,696</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 1,696</u>	<u>\$ ( 7,404)</u>	<u>\$ 10,525</u>	<u>\$ 17,929</u>

Continued



**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>BUILDING INSPECTION FUND</b>				
<b>Revenues:</b>				
Licenses and permits -				
Building permits	\$ 20,300	\$ 20,300	\$ 17,687	\$( 2,613)
<b>Expenditures:</b>				
Public Safety -				
Administration	300	300	230	70
Building inspection	20,000	20,600	20,502	98
	<u>20,300</u>	<u>20,900</u>	<u>20,732</u>	<u>168</u>
Excess of revenues under				
expenditures	-	( 600)	( 3,045)	( 2,445)
<b>Other Financing Sources :</b>				
Transfers in -	<u>-</u>	<u>-</u>	<u>3,050</u>	<u>3,050</u>
Excess of revenues and other sources				
over (under) expenditures	-	( 600)	5	605
Fund Balance at beginning of year	<u>30</u>	<u>30</u>	<u>30</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 30</u></u>	<u><u>\$( 570)</u></u>	<u><u>\$ 35</u></u>	<u><u>\$ 605</u></u>

Continued

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2005**

	Budget			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
DUS CENTENNIAL COMMISSION				
Revenues:				
Other				
Gande Dancer Ball	\$ -	\$ 8,300	\$ 8,487	\$ 187
Centennial Events and Sales	-	1,450	1,235	( 215)
Calendar Sales	-	1,000	720	( 280)
Miscellaneous	-	200	181	( 19)
	-	10,950	10,623	( 327)
Expenditures:				
Park and Recreation -				
Supplies	-	7,700	6,853	847
Contracted services	-	3,900	3,790	110
Printing	-	900	1,102	( 202)
Other	-	650	602	48
	-	13,150	12,347	803
Excess of revenues over (under) expenditures	-	( 2,200)	( 1,724)	476
Fund Balance at beginning of year	7,057	7,057	7,057	-
Fund Balance at end of year	\$ 7,057	\$ 4,857	\$ 5,333	\$ 476

# CITY OF DURAND, MICHIGAN

## AGENCY FUNDS STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FOR THE YEAR ENDED JUNE 30, 2005

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
<b>TAX COLLECTION FUND</b>				
<b>Assets:</b>				
Cash	\$ 38,597	\$ 2,135,917	\$ 2,144,069	\$ 30,445
<b>Liabilities:</b>				
Due to other governmental units	\$ 38,597	\$ 4,096,774	\$ 4,106,132	\$ 29,239
Due to other funds	-	216,722	216,722	-
Undistributed taxes	-	1,206	-	1,206
	<u>\$ 38,597</u>	<u>\$ 4,314,702</u>	<u>\$ 4,322,854</u>	<u>\$ 30,445</u>

## **COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY**

# CITY OF DURAND, MICHIGAN

## BALANCE SHEET/STATEMENT OF NET ASSETS DOWNTOWN DEVELOPMENT AUTHORITY JUNE 30, 2005

ASSETS	Governmental Activities	GASB 34 Adjustments	Statement of Net Assets
Cash and cash equivalents	\$ 87,981	\$ -	\$ 87,981
Capital Assets (net of accumulated depreciation)			
Assets being depreciated	-	174,400	174,400
Total Assets	<u>\$ 87,981</u>	<u>\$ 174,400</u>	<u>\$ 262,381</u>
 <b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 500	\$ -	\$ 500
Accrued interest	-	888	888
Due to other governmental units -			
State	10,215	-	10,215
Local	678	-	678
Non-current liabilities			
Due within one year	-	20,000	20,000
Due in more than one year	-	75,000	75,000
Total Liabilities	<u>11,393</u>	<u>95,888</u>	<u>107,281</u>
<b>Fund Balance:</b>			
Reserved/Reserved -			
Friday night live	11,990	( 11,990)	-
Facade	12,101	( 12,101)	-
Unreserved/Unrestricted	<u>52,497</u>	<u>( 52,497)</u>	-
	<u>76,588</u>	<u>( 76,588)</u>	
Total Liabilities and Fund Balance	<u>\$ 87,981</u>		
<b>Net Assets:</b>			
Investment in capital assets, net of related liabilities		79,400	79,400
Restricted		24,091	24,091
Unrestricted		<u>51,609</u>	<u>51,609</u>
Total Net Assets		<u>\$ 155,100</u>	<u>\$ 155,100</u>

**CITY OF DURAND, MICHIGAN**

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR  
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
ON THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY  
JUNE 30, 2005**

Fund Balances - total governmental funds	\$	76,588
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Amounts reported for Component unit activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Capital assets	252,000
Accumulated depreciation	( 77,600)

Long - term liabilities, including installments payable, are not due and payable  
in the current period and therefore are not reported in the funds.

Loan installments payable	( 95,000)
Accrued interest	( 888)

Net Assets of Downtown Development Authority activities	<u>\$ 155,100</u>
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**CITY OF DURAND, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/  
STATEMENT OF ACTIVITIES  
DOWNTOWN DEVELOPMENT AUTHORITY  
FOR THE YEARS ENDED JUNE 30, 2005**

	<u>Actual</u>	<u>GASB 34 Adjustments</u>	<u>Total</u>
<b>Revenues:</b>			
Taxes	\$ 53,908	\$ -	\$ 53,908
Intergovernmental sources			
State	697	-	697
Interest	574	-	574
Other	10,905	-	10,905
	<u>66,084</u>	<u>-</u>	<u>66,084</u>
<b>Expenditures/Expenses:</b>			
Current -			
Public Works	12,866	7,760	20,626
Debt Service-			
Principal	20,000	( 20,000)	-
Interest and fiscal charges	6,555	350	6,905
	<u>39,421</u>	<u>( 11,890)</u>	<u>27,531</u>
Excess of revenues over (under) expenditures	26,663	11,890	38,553
Fund Balance/Net Asset at beginning of year	<u>49,925</u>	<u>66,622</u>	<u>116,547</u>
Fund Balance/Net Asset at end of year	<u>\$ 76,588</u>	<u>\$ 78,512</u>	<u>\$ 155,100</u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY  
JUNE 30, 2005**

Net change in fund balances - governmental funds	\$ 26,663
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	( 7,760)
Repayment of the principal of long-term debt consumes the current financial resources of the component fund, however has no effect on net assets	
Principal payment on long term liability	20,000
Increase in accrued interest	<u>( 350)</u>
Change in net assets of Downtown Development Authority activities	<u>\$ 38,553</u>

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
DOWNTOWN DEVELOPMENT AUTHORITY  
FOR THE YEARS ENDED JUNE 30, 2005**

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 54,000	\$ 54,000	\$ 53,908	\$( 92)
Intergovernmental sources				
State	-	-	697	697
Interest	100	100	574	474
Other	-	-	10,905	10,905
	<u>54,100</u>	<u>54,100</u>	<u>66,084</u>	<u>11,984</u>
<b>Expenditures:</b>				
Current -				
Public Works	14,100	14,100	12,866	1,234
Debt Service-				
Principal	20,000	20,000	20,000	-
Interest and fiscal charges	6,600	6,600	6,555	45
	<u>40,700</u>	<u>40,700</u>	<u>39,421</u>	<u>1,279</u>
Excess of revenues over (under) expenditures	13,400	13,400	26,663	13,263
Fund Balance at beginning of year	<u>49,925</u>	<u>49,925</u>	<u>49,925</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 63,325</u>	<u>\$ 63,325</u>	<u>\$ 76,588</u>	<u>\$ 13,263</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council  
City of Durand, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand, Michigan, as of and for the year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

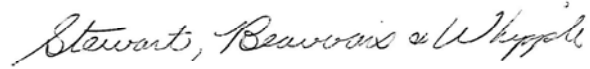
In planning and performing our audit, we considered the City of Durand, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Durand, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Durand in a separate letter dated October 24, 2005.

This report is intended solely for the information and use of the audit committee, management and the City Council of the City of Durand, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Stewart, Beauvois & Whipple".

Certified Public Accountants

October 24, 2005

## MANAGEMENT LETTER

To the Honorable Mayor and  
Members of the City Council  
City of Durand, Michigan

As you know, we have recently completed our audit of the basic financial statements of the City of Durand, Michigan as of and for the year ended June 30, 2005. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the City's recordkeeping system. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, dated October 24, 2005, the conditions described below are not considered reportable conditions or material weaknesses.

**The City should review and document the administration charges between the various funds.**

The City currently charges an administration fee from the general fund to various other funds of the City for services provided by the general fund. This is a very common and acceptable practice. However, it is our understanding that the method of determining the charges has not been reviewed and updated in a number of years.

We recommend that these charges be reviewed and documentations maintained on why, and the amount that is being charged.

**The assessment levied for Ambulance Services should be reported as a Special Revenue Fund as revenues of the City.**

During the prior year's audit it came to our attention that the City assesses a \$10 fee to each City taxpayer for the purpose of providing ambulance services. Currently the assessment is collected in the City's tax fund and passed through to the company providing the service, Durand Vernon Ambulance. However, because the City is the governmental unit assessing the fee and then contracting with Durand Vernon Ambulance to provide ambulance services, the assessment should be collected and recorded in a separate Special Revenue Fund. The payment for the service would then be recorded as expenditure, contracted ambulance services.

We recommend that a new Special Revenue Fund be established to account for this activity. This fund will require a budget be adopted in accordance with PA 621.

**The City should consider whether the Durand Union Station activities should be included as a component unit of the City.**

Currently the Durand Union Station operates as a separate nonprofit corporation to account for the operations of the Durand Union Station. It is our understanding that the nonprofit was organized to “support the rehabilitation, development, and maintenance of the Grand Trunk Union Station and for the purpose of establishing the State of Michigan Railroad Museum and Information Center”. However, based on the nature and significance of their relationship to the City, the Michigan

Department of Treasury and Governmental Accounting Standards may require that it be included as a component unit of the City. Statement No. 39 issued by the Governmental Accounting Standards Board titled “Determining Whether Certain Organizations are Component Units” became effective for periods beginning after June 15, 2003 and outlines certain instances where legally separate nonprofit corporations should be reported as a component unit of the governmental unit.

The criteria utilized to determine whether a legally separate, tax exempt organization should be reported as a component unit of a reporting entity includes:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise assess, are significant to that primary government.

Since the City owns the building, has in the past provided financial support, and the identity of the City is so interrelated with the Depot, we believe that the Durand Union Station would be one of these entities.

We recommend that you review the operations of the Durand Union Station and the new requirements to determine if you agree that it should be reported as a component unit.

**The City should establish procedures to ensure that they comply with the City’s investment policy and/or amended the investment policy.**

Although the City complies with Michigan Compiled Laws, the City’s investment policy requires that certain information be obtained and collateralization be obtained for all certificates of deposit. During the audit, we noted that the City had not obtained collateralization for certification of deposit, annual information from financial institutions, and quarterly reporting to the City Council. We recommend that the City establish procedures to ensure that they comply with the City’s investment policy.

**The salaries and wages reported on the general ledger and the wages reported in the payroll systems should be reconciled on a quarterly basis.**

At the current time, the quarterly IRS 941 reports are not reconciled to the wages on the City’s general ledger. We recommend quarterly reconciliations be performed comparing wages per the City’s general ledger to wages reported on the Federal 941 forms.

This report is intended solely for the information and use of management, the City of Council, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

October 24, 2005